

## **Landlords Inc.**

Shahrukh Wani 24 Nov 2020

**BUY land for they aren't making it anymore, Mark Twain once advised. Our politicians certainly seem to agree — some have over a dozen parcels of land to their name, according to recent asset declarations published by the Election Commission.**

None of this is a surprise. Pakistan's rich (like the rest of us) like to buy land because it is a tangible and easily definable asset, instead of company stocks or government bonds — you can see land, touch it, build upon it. It gives you social status and helps you keep it. It also tends to go up in value by a lot: on average, Lahore's residential plot increased its market value by 85 per cent between 2013 and 2018.

Better yet, once you own land, you don't have to do anything for its value to go up. The majority of the value of properties comes from its land. Once the owner of a piece of land, one benefits from other people's work: people who run businesses; those whose taxes allow governments to invest in improving infrastructure. All of these people work, and they drive up the value of land around them. Those who own the land benefit without having to lift a finger.

Hence, the fair thing to do is to tax people who own land, so that the landlords pay for the infrastructure they benefit from. It is also the smart thing to do so the government can use this tax revenue and invest in better infrastructure that drives up the value of land and paves the way for more property tax revenue in the long run. The best way to do this is by enforcing an annual tax on property that owners linked to the land's market value, so as the land value goes up, a portion of it is actively captured to pay for public services.

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As most fair and smart things go, we don't do this well right now. All of Punjab, with its 100 million-plus population, collects less urban property taxes than the city of Chennai, which is home to about 10m people.

This is because our current system allows landlords to pay little regular taxes on their properties. This is by design: the tax method used underestimates property values. An owner of a one-kanal (approximately 500 square metres) house in a

posh area in Lahore or Karachi rarely has to worry about an annual tax bill above a few thousand rupees.

By not taxing land enough, we have designed a system in which people buy land to increase their wealth rather than buy land for housing. This is why parts of our cities are left vacant, as landlords wait for their plots to increase in value. Those who aren't lucky enough to own land have to move to the city's outskirts to afford a house.

How do we change this? If the government is willing, there is enough technical expertise to design a fairer tax system that actively targets the richest landlords. But landlords are a powerful lobby, especially if they're the ones who dominate our legislatures. Any such reforms will depend on the reformer's ability to balance winners (the people at large) and the losers (the landlords).

An excellent way to do this is to link any such expansion of taxation with local service delivery led by independent urban governments. The key here is to allow local urban governments to link property taxes with local service delivery. This would help create a clear coalition of beneficiaries from the expansion of property taxes in every city. But currently, we don't have empowered local governments: Punjab's decentralisation bill would pave the way for such governments in the province, but elections are repeatedly delayed.

For such local governments to properly tax wealth kept in the form of land, we also need to change the special provisions given to parts of the city — such as the cantonment areas and Defence Housing Authorities where the highest-value land is located and they collect property taxes independently of local and provincial governments. As residents of these areas benefit from the city's larger economic system, it is only fair that they contribute towards city-wide public investment.

Such reforms are possible. Consider: Freetown's mayor revamped her city's property tax system earlier this year. Her message is simple: we need to pay for public services, and it is only fair that the richest landlords pay their fair share. The taxes on the top 20pc of the landlords will triple, while taxes on the poorest will be halved. The city expects its property tax revenue to increase five-fold.

Until we do the same, our legislators-cum-landlords will continue to benefit from unearned profits while accumulating larger landholdings. Aspiring landlords will buy plots in shady housing societies. Our cities will continue to struggle to pay for essential services. As for those who want to buy land to build a house — they will have to wait.

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